

Message Text

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C O N F I D E N T I A L LIMA 5341

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SUBJ: FINANCE MINISTER JUSTIFIES ECONOMIC PACKAGE IN
FURTHER PRESS CONFERENCE

REF: LIMA 5303

1. MINISTER OF ECONOMY AND FINANCE GEN. EP AMILCAR VARGAS GAVILANO PROVIDED FURTHER DATA ON NEW WAGE-PRICE POLICY DURING PRESS CONFERENCE ON JULY 1, REPORTED IN FOLLOWING DAY'S PRESS. VARGAS STATED THAT NEW ECONOMIC PACKAGE SHOULD NOT CAUSE ANY NEGATIVE IMPACT ON PERSONAL FAMILY BUDGET SINCE THE PERIOD OF BELT-TIGHTENING, ACCORDING TO THE MINISTER, WILL LAST ONLY SIX MONTHS, IF THAT. VARGAS SAID THAT BY EARLY 1976 STABILITY AND WELL-BEING WILL BE REESTABLISHED AND WILL INCREASE DRAMATICALLY IN 1977 WHEN NEW OIL, MINING, INDUSTRIAL, AGRICULTURAL, AND FISHING PROJECTS COME ON LINE. HE EXPLAINED THAT IF GOP HAD NOT TAKEN MEASURES INCLUDED IN PACKAGE, INFLATIONARY PRESSURE WOULD HAVE BEEN WORSE THAN THAT NOW EXPECTED AND WOULD HAVE HAD A LONG-RANGE NEGATIVE IMPACT ON PERU.

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2. TURNING TO GOP'S CALCULATIONS FOR WAGE INCREASES,

VARGAS EXPLAINED THAT WAGE INCREASES WERE BASED ON WORKERS' LOSS OF PURCHASING POWER SINCE THE FIRST OF 1974 TO THE PRESENT, NOTING THAT LAST YEAR'S INFLATION RATE OF 19 PERCENT REDUCED WORKERS' PURCHASING POWER BY THAT AMOUNT. IN ADDITION, HE NOTED THAT IN THE FIRST SIX MONTHS OF THIS YEAR, INFLATION HAD EATEN ANOTHER TEN PERCENT OUT OF WORKER'S PURCHASING POWER, FOR A TOTAL OF 29 PERCENT THROUGH THE END OF JUNE 1975. (COMMENT: AT PRESS CONFERENCE MONDAY NIGHT, VARGAS SAID THAT OVERALL INFLATION RATE FOR 1975 WOULD BE 30 PERCENT, BUT APPARENTLY MISSPOKE, AND HIS PRESS CONFERENCE SERVED TO CORRECT THIS ERROR.) VARGAS THEN SAID THAT THE GOP TOOK FOR ITS BASIC MINIMUM WAGE A FIGURE OF S/.4,000 MONTHLY AND CALCULATED 30 PERCENT ON TOP OF THIS FIGURE TO MAINTAIN PURCHASING POWER OF WORKER THROUGH THE PRESENT DATE. THEN, MINISTER SAID, ONE SHOULD ADD ANOTHER 10 PERCENT FOR THE INFLATION RATE FOR THE REST OF THIS YEAR CAUSED BY NEW PRICE INCREASES FOR AN OVERALL INFLATION RATE OF 35 PERCENT FOR THE YEAR, 10 PERCENT MORE THAN THE ESTIMATED 25 PERCENT FIGURE WHICH THE MINISTRY OF FINANCE HAD BEEN PREVIOUSLY USING FOR 1975. APPLYING THE 10 PERCENT FIGURE TO THE S/.4,000 CALCULATION, VARGAS SAID ONE OBTAINS THE S/.400 FIGURE. THIS S/.400 INCREASE IS ADDED TO THE FIGURE OF S/.1,200 FOR GOVERNMENT WORKERS FOR A FINAL GENERAL INCREASE FOR GOVERNMENT WORKERS OF S/.1,600.

3. TURNING TO THE PRIVATE SECTOR, VARGAS SAID PRIVATE SECTOR WORKERS NOT ONLY RECEIVE THE S/.400 INCREASE ACROSS-THE-BOARD, BUT ALSO THOSE INCREASES SET FORTH IN GUIDELINES OF D.L. OF JUNE 26 (PARA 4 REFTEL). THUS, PRIVATE SECTOR WORKERS CAN RECEIVE BETWEEN S/.850 AND S/.2,020 INCREASES, INCLUDING THE S/.400 MONTHLY BONUS. HE ALSO NOTED THAT S/.70,000 MONTHLY TOP SALARY FOR NEW PRIVATE SECTOR HIRINGS IS DESIGNED TO REDUCE DISPARITY BETWEEN TOP GOVERNMENT SALARY OF S/.41,600 AND TOP PRIVATE SECTOR SALARIES.

4. COMMENT: VARGAS' EXPOSITION DID SERVE TO CLARIFY THE FACT THAT GOVERNMENT INCREASE OF S/.1,600 ALREADY INCLUDES S/.400 BONUS WHICH WILL THEREFORE NOT BE PAID IN ADDITION TO GENERAL INCREASE. REACTIONS FROM PRIVATE
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SECTOR BUSINESSMEN TO DATE INDICATE SOME CONFUSION ON SPECIFIC IMPLICATIONS OF WAGE HIKE, AND GOP PRESENTATION OF BASIS USED FOR REACHING THEIR FIGURES HAS BEEN LESS THAN CRYSTAL CLEAR, ALTHOUGH OFFICIAL PERUVIAN GAZETTE PUBLISHED COMMUNIQUE SETTING FORTH CALCULATIONS ON JULY 2. WE ALSO THINK THAT GOP EXPRESSION OF HOPE THAT PRICE RISE WILL BE ONLY 10 PERCENT MAY BE SOMEWHAT ON LOW SIDE, AS IS THE OFFICIAL

ESTIMATE THAT THE PRE-PACKAGE INFLATION RATE FOR 1975
WOULD HAVE BEEN ONLY 25 PERCENT. PRESUMING A PRE-PACKAGE
INFLATION RATE OF 30 PERCENT AND AN IMPACT OF APPROXIMATELY
10 PERCENT DUE TO PRICE INCREASES, WE THEREFORE REACHED
OUT TENTATIVE "GUESSTIMATE" (REFTEL) THAT PERU'S
INFLATION RATE COULD REACH 40 PERCENT THIS YEAR. AN
ANALYSIS OF THE MULTIPLIER EFFECTS OF PRICE INCREASES
WILL NOT BE POSSIBLE UNTIL FIRM DATA IS AVAILABLE ON
THE PROJECTED REAL INCIDENCE OF THESE INCREASES.
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